



January 31, 2014

Mr. Robert deV. Frierson, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20051

Mr. Robert E. Feldman, Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429

Mr. Thomas J. Curry, Comptroller of the Currency  
Office of the Comptroller of the Currency  
400 7th Street SW, Suite 3E-218, Mail Stop 9W-1  
Washington, DC 20219

**RE: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring  
Federal Reserve System [Docket ID OCC-2013-0016]**

Dear Secretary deV. Frierson, Executive Secretary Feldman and Comptroller Curry:

CHRISTUS Health ("CHRISTUS") appreciates the opportunity to provide the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC"), and the Office of the Comptroller of the Currency ("OCC") (together, the "regulatory agencies") with its comments regarding the "Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring Federal Reserve System" ("Proposed Rule").<sup>1</sup>

CHRISTUS Health is an international Catholic, faith-based, nonprofit health system that serves the citizens of over 60 cities in the United States, Mexico and Chile. Its dimension, strength and depth of service place CHRISTUS among the top 10 Catholic health systems in the United States. CHRISTUS also employs over 30,000 individuals and treats over three million patients annually

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<sup>1</sup> See 78 Fed. Reg. 71,818, Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring Federal Reserve System (Nov. 29, 2013), available at <http://www.occ.gov/news-issuances/federal-register/78fr71818.pdf>.

through nearly 350 facilities, including more than 50 hospitals and long-term care facilities, 175 clinics and outpatient centers, and dozens of other health care ministries.

CHRISTUS writes to express its concerns regarding the exclusion of municipal securities from the definition of High Quality Liquid Assets (“HQLAs”) under Levels 2A, and 2B. CHRISTUS believes that such exclusion not only ignores the favorable conditions of the existing U.S. municipal securities market, but also has the potential to significantly constrain U.S. banks’ investment in municipal securities and their acceptance of collateralized municipal deposits. Further, excluding municipal securities under Levels 2A and 2B of the HQLA classification would run counter to the regulatory agencies’ stated goal of improving the banking sector’s “ability to absorb shocks arising from financial and economic stress.”<sup>2</sup> Thus, CHRISTUS encourages the regulatory agencies to revisit the Proposed Rule to include municipal securities under Level 2A of the HQLA classification.

### **I. The Characteristics of Municipal Securities Coincide With the Liquidity Characteristics of HQLAs**

According to the Proposed Rule, the liquidity factors considered in determining whether an asset is “high-quality” include the asset’s: (1) low risk profile in terms of liquidity, credit, inflation, and subordination in case of insolvency; (2) market-based characteristics such as diversity, high trading volumes, and stability of market terms; and (3) central bank eligibility (whether the asset can be pledged to a central bank as collateral).<sup>3</sup>

Taking such factors into consideration, the Proposed Rule outlines assets that will qualify as HQLAs under Level 1, Level 2A, and Level 2B. In doing so, it notes that “this proposed rule likely would not permit covered bonds and securities issued by public sector entities, such as a state, local authority, or other government subdivision below the level of a sovereign (including U.S. states and municipalities) to qualify as HQLA at this time.”<sup>4</sup> Similarly, the Proposed Rule does not explicitly list municipal securities as Level 2B HQLAs.

CHRISTUS respectfully submits that the *likely* exclusion of municipal securities as Level 2A HQLAs would be misguided because the characteristics of the current U.S. municipal securities market fit within the main “high-quality” factors, as outlined above. As such, excluding municipal securities as Level 2A HQLAs would reflect a fundamental misunderstanding of the conditions and developments of the U.S. municipal securities market.

First, municipal securities present a transparent and low risk profile. Indeed, the risk profile of municipal bonds is available to the public through the Electronic Municipal Market Access (“EMMA”) system, which provides free public access to official disclosures, “real time” transaction price and size for trading in municipal securities, credit ratings, and other information about the municipal securities market. Such data highlights the fact that municipal securities, including conduit borrowers, have a substantially lower default ratio than corporate debt. Moreover, excluding

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<sup>2</sup> Id. at p. 71,820.

<sup>3</sup> Id. at p. 71,823-24.

<sup>4</sup> Id. at p. 71,827.

municipal securities as HQLAs would undermine these transparency and low risk characteristics, while ignoring the sovereign nature of each of the fifty U.S. states, several of which have credit ratings higher than the United States (as do many municipal issuers).

Second, municipal securities reflect market-based characteristics such as diversity, high trading volumes, and stability of market terms. As demonstrated during the 2008 financial crisis, general obligation (“GO”) municipal securities have proven to retain their value more consistently than higher and lower investment grade corporate bonds, performing similarly to Government-Sponsored Enterprise (“GSE”) secured bonds. According to Moody’s, for example, “[o]nly five [GO] bond issuers, including cities, counties and school districts, defaulted on GO bonds in the 41-year study period and only one GO issuer out of approximately 9,700 rated by Moody’s has defaulted on bonds in the last three years. Two municipal governments defaulted on lease appropriation bonds in the study period.”<sup>5</sup>

Further, the municipal securities market trades as a percentage of the total outstanding market are nearly at the same volume as corporate and GSE bonds,<sup>6</sup> and “in 2012 daily trading volume in Treasury securities averaged almost \$520 billion, compared to over \$800 billion in total trading in U.S. bond markets.”<sup>7</sup> Finally, with regard to diversity, it is important to note that over 70 percent of all outstanding municipal securities are held by thousands of individual investors, directly or through mutual funds and money market funds. As stated by the Securities and Exchange Commission (“SEC”) in 2012, “the municipal securities market is also an extremely diverse market, with close to 44,000 state and local issuers, and with a total face amount of \$3.7 trillion.”<sup>8</sup>

## II.

### **Excluding Municipal Securities from the HQLA Classification Will Negatively Impact Communities Nationwide**

The exclusion of municipal securities from the HQLA classification has the potential to generate a harmful and unnecessary increase in financing cost to users of a significant capital market, namely the state and local governments and conduit borrowers such as ourselves who frequently raise funds in the market. In fact, such exclusion, without readily apparent justification, removes purchase capacity from and drives up the cost of borrowing in the municipal marketplace, adversely affecting states and local governments and their taxpayers, as well as conduit borrowers using the municipal market.

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<sup>5</sup> See Moody’s, Defaults Remain Rare for Municipal Bonds; Study Points to New Pattern (Mar. 7, 2012), available at [https://www.moody.com/research/Moodys-Defaults-remain-rare-for-municipal-bonds-study-points-to--PR\\_239756](https://www.moody.com/research/Moodys-Defaults-remain-rare-for-municipal-bonds-study-points-to--PR_239756).

<sup>6</sup> See SIFMA, Outstanding U.S. Bond Market Debt (2013).

<sup>7</sup> Government Accountability Office, Ownership of Federal Debt, <http://www.gao.gov/special.pubs/longterm/debt/ownership.html>.

<sup>8</sup> SEC, Report on the Municipal Securities Market (July 31, 2012), available at <http://www.sec.gov/news/studies/2012/munireport073112.pdf>.





Additionally, because of its broader implications to the municipal marketplace, the Proposed Rule, as currently drafted, will ultimately impact state and local level infrastructure development implemented through debt financing. For example, the Proposed Rule will significantly limit CHRISTUS's ability to provide health services that treats over three million patients annually. Similarly, essential infrastructure development in areas such as education, transportation, public power, affordable housing, and public safety may suffer as an unintended consequence of this Proposed Rule.

For these reasons, CHRISTUS encourages the regulatory agencies to revisit the proposed classification of HQLAs to include municipal securities under Level 2A.

We thank the Federal Reserve, the FDIC, and the OCC for the opportunity to comment on their Proposed Rule regarding liquidity coverage ratio. If you have any questions, please do not hesitate to contact me at [Melissa.williams@christushealth.org](mailto:Melissa.williams@christushealth.org) or (469)282-2255.

Sincerely,

*Melissa Williams*

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